

The Competitive Challenge:
**Building
a World-Class
Workforce**



**National Association
of State Workforce Board Chairs**

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Foreword

The National Association of State Workforce Board Chairs, representing the gubernatorial-appointed chairs of state workforce boards, sees building a skilled workforce as one of the most urgent challenges to ensuring the nation's continuous economic competitiveness and the prosperity of workers, families, and employers in the 21st century.

As private-sector employers, we understand the importance of a skilled and agile workforce to the successful performance of our businesses. Therefore, we are committed to providing leadership in building a workforce development system that has the flexibility to respond to the demands of a changing economy.

We envision a workforce system strongly connected to K–16 education and to the economic development strategies of our states and communities. This system provides opportunities for all current and future workers to advance and meets the needs of employers for qualified workers. It is private-sector led and built through public-private partnerships and investments.

To achieve this vision we have prepared *The Competitive Challenge: Building a World-Class Workforce*. In doing so, we recognize the urgency of what is at stake along with the challenges we face as a nation. The paper outlines recommendations for policymakers at all levels to move the workforce development system forward.

We invite discussion of these recommendations from all who are interested in building a world-class workforce.

Karen McGee
Chair, National Association of State Workforce Board Chairs
May 2002

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Executive Summary

At the start of the 21st century, our nation's economic vitality depends on the knowledge and skills of our workers more than ever before in history. For the United States to remain competitive in the knowledge-based global economy, it is critical that we create and maintain a world-class education system that prepares our workforce with world-class skills. The workforce development system of the 21st century must be innovative, business-driven, customer-oriented, and performance-based. Ultimately, it must add value and increase the productivity of our nation's economy. To become a world-class system, it must be agile enough to adapt to rapid changes in the economy and be responsive to its customers.

The personal prosperity of our citizens and the economic security of our nation will require uniting our education, economic development, and workforce development strategies in a common effort to equip our citizens with higher skills and supply our businesses with qualified workers. The knowledge-based economy presents critical new obligations and responsibilities for the public's investment in innovative and responsive education and training solutions. Without significant changes in the agility and responsiveness of our systems, the chasm between the supply and demand of skilled workers will continue to widen. Unless we realign our resources to address the new demands of the knowledge-based economy, we risk outsourcing more work to foreign locations, eliminating jobs and the chance for upward mobility for U.S. workers. Failure to act now will put the economic well-being of our citizens, the productivity of our businesses, and the economic security of our nation at risk.

To ensure that the United States remains competitive in the global economy and that all workers are able to maximize their potential as workers and citizens, we must act now to:

- ◆ manage persistent labor shortages, changing workforce demographics, and the globalization of the economy;
- ◆ recognize that workforce development equals economic development;
- ◆ prepare all current and future workers for knowledge-based economy jobs and lifelong education;
- ◆ identify critical skills shortages and educate our population to fill these gaps;
- ◆ increase the business community's satisfaction with the education and training systems;
- ◆ respond with agility to increased churning in the labor market; and
- ◆ provide quality labor market information and career development information.

For the United States to remain competitive in the knowledge-based global economy it is critical that we create and maintain a world-class education system that prepares our workforce with world-class skills.

Recommendation 1
Design a workforce investment system that is demand-driven.

Recommendation 2
Actively promote lifelong learning, reskilling, and upgrading of the workforce.

Recommendations for Action

The National Association of State Workforce Board Chairs, which represents the chairs of the gubernatorial-appointed, private-sector-led workforce boards in all states and territories, recommends that policymakers in Congress, the Administration, states, territories, and local communities take these steps to advance the economic competitiveness of our nation and the livelihood of our workers.

1: Design a workforce investment system that is demand-driven.

- ◆ Engage business and industry as full partners in system design and execution, with an emphasis on strategic thinking and positioning.
- ◆ Design education and training programs that are customized to meet the diverse needs of both employers and employees/students, focusing, for example, on accessibility, responsiveness, modular curriculum, contextual learning, and expanded e-learning opportunities.
- ◆ Increase technical assistance to small and medium-sized businesses, with a focus on streamlining workforce development program delivery and providing human resource services.
- ◆ Support state implementation and dissemination of a voluntary, industry-validated, nationally recognized system of occupational certifications and skill standards.
- ◆ Promote the use of sector-based strategies and industry clusters in partnering with businesses to train the workforce.
- ◆ Support states that use innovative approaches to address teacher shortages and innovative methods in teacher preparation.

2: Actively promote lifelong learning, reskilling, and upgrading of the workforce.

- ◆ Promote the development and use of portable credentials.
- ◆ Design programs to meet the diverse needs of workers within the context of the workforce's changing demographics.
- ◆ Develop a system of creative incentives for human capital investments by individuals and businesses to fill critical skills gaps identified through community audits and to meet future needs identified in community economic development plans.

3. Transform the workforce development system's alignment—accountability systems, funding mechanisms, and management.

- ◆ Establish a business-led, federal-level oversight board/task force, including major federal partners and a strong business majority, to guide the system, break down administrative silos at the federal level, and advise the President and Congress on broad workforce development issues.
- ◆ Provide flexible funding to enable education and workforce development efforts to be agile and responsive to market demands.
- ◆ Focus on meaningful accountability measures across agencies, return on investment, and continuous improvement rather than on bureaucratic, program-specific performance measures.
- ◆ Transform the role of the U.S. Department of Labor's Employment and Training Administration from that of a regulatory agency to one focused on supporting state and local performance innovation.

4. Transform the workforce system's image, culture, and philosophy.

- ◆ Develop and disseminate a vision of a world-class workforce system that is agile, responsive, innovative, business-driven, customer-oriented, performance-based, value-adding, and productivity-increasing.
- ◆ Position and promote the education and workforce systems as ones that serve all individual learners, job seekers, and business customers.

5. Engage state and local education entities and economic development departments as full partners with state and local workforce investment boards.

6. Overhaul labor market information systems at the federal and state levels to be more current, effective, and user-friendly in providing quality data and analysis to make good business and career decisions.

Recommendation 3
Transform the workforce development system's alignment

Recommendation 4
Transform the workforce system's image, culture, and philosophy.

Recommendation 5
Engage state and local education entities and economic development departments as full partners with state and local workforce investment boards.

Recommendation 6
Overhaul labor market information systems at the federal and state levels.

Chapter 1

What is at Stake?

At the start of the 21st century, the economic vitality of our businesses, our communities, our states, and our nation depend on the knowledge and skills of our workers more than ever before. In November 2000, Condoleezza Rice, then provost of Stanford University and now national security advisor, stated:

The growing international trend toward democracy and market economies will only be positive for the United States if our job structure in the New Economy matches our workers' skill sets. There is a growing gap between the knowledge-based, technology-intensive jobs that are driving the U.S. economy and the skills of American workers. Education is the top national security issue of the 21st century.¹

Although the events of September 11, 2001, have refocused our national security priorities, the knowledge and skills of our workers remains a critical issue for our nation with regard to economic competitiveness and national security. The globalization of trade puts the United States in direct competition with nations producing high-quality goods with lower labor costs. To remain competitive, businesses are reorganizing work processes, moving labor-intensive production to nations with cheaper labor, automating low-skill jobs, and relying on workers to use their skills to problemsolve, troubleshoot, and improve productivity. As a result, jobs are being shed at record rates, while companies across all industry sectors are clamoring over an inadequate supply of skilled workers. As companies increasingly employ a global workforce, the United States can no longer afford the luxury of leaving any citizen behind with inadequate knowledge and skills to compete. The personal prosperity of our citizens and the economic security of our nation will require uniting our education, economic development, and workforce development strategies in a common effort to equip our citizens with higher skills and supply our businesses with qualified workers.

Although skilled labor has become the engine of our economic growth, the introduction of technology, global competition, and the churning economy have limited job security and made the relationship between employers and employees far more tenuous. ***The knowledge-based economy presents critical new obligations and responsibilities for the public's investment in innovative and responsive education and training solutions.***

Job tenure for males has declined from six years in the mid-1980s to five years in 2000, leaving corporate America with little incentive to invest in training their workers.² Given the transient nature of today's jobs and workers, many employers are reluctant to "invest" in training workers who may leave the company. Private-sector investment in worker education and training varies widely by sector and business size. Small firms, in particular, which employ 53 percent of U.S. workers, provide few training opportunities for their employees. As a share of the U.S. gross domestic product, business investment in training fell 18 percent between

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Without significant changes in the agility and responsiveness of our workforce investment system, the chasm between the supply and demand of skilled workers will continue to widen.

1988 and 1999,³ though the gross amount spent on employer-sponsored training in the United States increased 555% from 1982 to 2001.⁴ **More and more, the responsibility for acquiring necessary skills increasingly falls to the individual. This places new burdens on the public education (secondary, postsecondary, adult, vocational, technical and rehabilitation), training, and employment systems.**

Without significant changes in the agility and responsiveness of our workforce investment system, the chasm between the supply and demand of skilled workers will continue to widen, limiting our nation's potential for economic growth and our citizens' opportunities for personal prosperity.

- ◆ The Bureau of Labor Statistics projects a 14-percent increase in job openings between 1998 and 2008, but the labor force will grow only 12 percent during the same period.⁵
- ◆ Between 1998 and 2008, our economy will generate 14.1 million new jobs that require advanced skills—acquired through at least some postsecondary education—and only 6.2 million new jobs that require a basic and minimal skill level—a skill level found among many school dropouts and high school graduates.⁶
- ◆ Forty-six million college-educated baby boomers will retire during the next 20 years.⁷
- ◆ By 2020, our nation will lack at least 12 million people with some postsecondary education who are needed to fill the jobs of the knowledge-based economy.⁸
- ◆ The United States ranks 10th in adult literacy among 17 high-income countries. More troubling, our nation has the largest gap between highly educated and poorly educated adults. Moreover, our 16- to 25-year-olds not only underperform compared with their peers in other countries, but also do so to a greater degree than Americans above age 40.⁹

At the National Governors Association Workforce Development Policy Forum in New Orleans, Louisiana, in December 2001, U.S. Assistant Secretary of Commerce for Economic Development David Sampson clearly and concisely articulated what is at stake.

Unless the skills gap within the United States is closed and employers can find the workers they need, and job seekers have the skills to pursue the opportunities that will exist, then America's economy will remain extremely vulnerable.... The stakes are high: freedom of trade and commerce; personal and political liberty; and national and individual security.¹⁰

Unless we realign our education and workforce development systems to address these new demands with agility, responsiveness, and innovation, we put the economic well-being of our citizens, the productivity of our businesses, and the economic security of our nation at risk.

Chapter 2

The Competitiveness Challenge

To ensure that the United States remains competitive in the global economy and that all workers can maximize their potential as workers and citizens, we must act now to:

- ♦ manage persistent labor shortages, changing workforce demographics, and the globalization of the economy;
- ♦ recognize that workforce development equals economic development;
- ♦ prepare all current and future workers for knowledge-based economy jobs and lifelong education;
- ♦ identify critical skills shortages and educate our population to fill these gaps;
- ♦ increase the business community's satisfaction with education and training systems;
- ♦ respond with agility to increased churning in the labor market; and
- ♦ provide quality labor market information and career development information.

Manage persistent labor shortages, changing workforce demographics, and the globalization of the economy

Although the economy has slowed during the past year and many workers have lost their jobs, it is critical to understand that population demographics indicate that labor shortages will persist well beyond 2020. The U.S. Department of Labor (DOL) estimates that by 2006, there will be 151 million jobs available and only 141 million people in the workforce pool.¹¹ Along with this significant labor shortage, the nation is experiencing unprecedented changes in demographics, including growth in the number of seniors in the population. During the next few decades, new immigrants and various nontraditional labor force entrants will fill many jobs. Employers and seniors alike will be compelled to view “retirement” in a new way; many seniors will work well into their seventies and eighties. Moreover, the globalization of the economy enables workers in India to manage payroll systems for U.S. companies. It also enables U.S. businesses to take many jobs offshore, where labor costs are lower or skilled workers are more available.

These demographic and globalization realities must be addressed with creative education and workforce development strategies. **It is critical for the education and workforce development systems to flexibly meet the diverse and changing needs of workers and businesses within the context of persistent labor shortages, changing workforce demographics, and the globalization of the economy.**

Recognize that workforce development equals economic development

Historically, economic development has largely been focused on infrastructure issues, such as roads, sewers, transportation networks, utility costs, and tax policy and incentives. Today economic development is increasingly reliant on a supply of skilled workers. Companies making site location or expansion decisions want to know about the existing pool of potential workers, the availability of responsive training providers, and the quality of the local school

DOL estimates that by 2006, there will be 151 million jobs available and only 141 million people in the workforce pool

It will be critical to provide lifelong education opportunities to all workers and to create a culture in which all citizens value and pursue lifelong education.

system. An unskilled workforce significantly affects the ability of economic development professionals to attract new businesses or to convince existing businesses to expand within communities. It is critical to maintain a cohort of skilled workers to compete in a global economy where many countries can provide lower-wage workers. Communities must now compete for new jobs in terms of innovation, supplies of skilled workers, and productivity rather than on the basis of low wages as in the past.

Prepare all current and future workers for knowledge-based economy jobs and lifelong education

The changing demographics also make it clear that **we can no longer afford to leave any individual behind** as we develop the workforce's skills. For both economic and humanistic reasons, we must train incumbent workers with low or outdated skills as well as those who might not have been considered "employable" just a decade ago. Many of these new entrants have low education levels, little work experience, poor work attitudes, and poor basic literacy skills. Yet the jobs of the knowledge-based economy require skills beyond the high school level and are increasingly technical and rapidly changing. Therefore, the focus of worker preparation should be on creating a culture of lifelong education. All citizens will need strong knowledge-based foundation skills in such areas as applied math, reading, critical thinking, communication, teamwork, and problemsolving. They also will need technical skills that must be updated regularly.

To prepare new entrants and continually upgrade incumbent workers with the skills necessary to succeed in the knowledge-based economy, it will be critical to provide lifelong education opportunities to all workers and to create a culture in which all citizens value and pursue lifelong education.

Identify critical skills shortages and educate our population to fill these gaps

Although the U.S. economy has certainly softened in 2001 with significant layoffs and a downward trend in economic indicators, **there still is a critical gap in the skills that employers need and the skills that workers possess**. While many workers become unemployed, many jobs go unfilled. For example, an industry study conducted in 2000 indicated that there would be a demand for roughly 1.6 million information technology positions but more than half would go unfilled nationwide.¹² Similarly, math and science teachers, health care workers, and skilled tradespeople are increasingly in short supply. For employers, the resulting unfilled positions mean lost business opportunities and greater dependence on foreign labor. These skills shortages will persist into the next decade and beyond; the current economic downturn is only a temporary phenomenon.

We must also recognize that many of the jobs that will exist in 2010 and beyond do not currently exist. We cannot even begin to imagine the skills that will be needed or the jobs that will be created in such fields as biotechnology. Providing incumbent worker training and reskilling the workforce must become priorities. An effective and agile

workforce development system must help employers and job seekers identify and prepare for these fast-changing critical skills needs. The closing of this skills gap will require tremendous collaboration among education and training institutions, employers, workers, and human service agencies.

Increase the business community's satisfaction with education and training systems

The annual budget of the U.S. elementary and secondary school (K–12) system is \$372 billion, and the higher education annual budget is \$247 billion.¹³ Despite these expenditures, **almost one in four youth suffers from low literacy rates.**¹⁴ U.S. employers spend \$62 billion per year on basic skills training for their employees.¹⁵ Employers repeatedly say that their workers are underprepared for the jobs of the knowledge-based economy. “Teach them to read, compute, problemsolve and work in teams—we will teach them to make our widgets.” To ensure that the nation can be competitive in the global economy, the education and workforce development systems must focus substantial effort not only on developing technical skills, but also on developing strong academic and employability foundation skills.

Although some progress has been made in strengthening the linkages between the business community and the education sector in recent years, much remains to be done. An effective workforce development system requires stronger collaboration among education, business, and workforce partners to improve the skills of new job entrants and to meet the needs of employers.

Respond with agility to increased churning in the labor market

The knowledge-based economy is inherently dynamic. The relatively low national unemployment rate belies the high churning factor in the labor market (i.e., the combined real rate of hiring, layoffs, and voluntary job changes). Official unemployment statistics offer only a snapshot of the number of people actively seeking work through a public labor exchange as a percentage of the total (employed and unemployed) workforce. This picture does not capture satisfactorily the dynamic nature of the knowledge-based economy—the job hopping, the multiple job holding, and the increases in self-employment, contract employment, temporary work, and outsourcing.

Workers can no longer count on working for the same company for 30 years. Instead they must become “career entrepreneurs” responsible for their own training and development. Moreover, employers are becoming more concerned about providing training to employees who may then take their enhanced skills to another employer. **An effective workforce development system must address both the labor exchange and training needs of employers and workers within the context of this churning environment.**

Provide quality labor market information and career development information

If the economy and labor markets are to function efficiently in this fast-changing global

An effective workforce development system requires stronger collaboration among education, business, and workforce partners.

environment, then decisions by all players must be made on the basis of timely and accurate information. Private companies make modern investment decisions based on detailed and current information obtained from around the globe. Unfortunately, no single private player has the incentive or the authority to collect, verify, sort, and display all the data necessary for sound decisionmaking in the workforce realm. Meanwhile, the existing public official data series commonly serves the uses of governments rather than customers. Often the data-bases cannot be accessed easily and some contain outdated information. **An effective workforce development system must transform the existing data collection systems so that job seekers and employers have current, easily accessible, and relevant information and analysis to make good economic and career decisions.**

Chapter 3

Challenges for the Workforce Development System and Recommendations for Moving the System Forward

The public sector has invested in a broad infrastructure that supports the education, training, employment, and economic development needs of our workers and our employers. The K–12 education system helps prepare our youth to engage in further training or to enter the world of work. The university and community college systems help both young adults and older workers pursue lifelong learning and acquire the skills needed in the New Economy. The federal government offers Pell grants and other financial assistance to help make this training more affordable.

The publicly funded workforce development system offers a broad array of training and employment programs designed to serve unemployed and underemployed adults. In addition, our economic development programs often assist businesses by connecting them with public-sector training and employment solutions. Finally, our human services programs provide income supplements and related support services that are often needed by working families.

In the knowledge-based economy, however, it is critical that these broad systems go well beyond simply developing complementary programs. They must partner to create innovative strategies and solutions that meet customers' needs, improve the efficiency and effectiveness of the workforce development system, and secure our nation's continued economic growth. The workforce development system must realign its governance arrangements and services to connect the education, economic development, and human services systems so that all workers and employers can thrive in these changing economic times.

The workforce development system needs to move away from its provision of second-chance assistance for the unemployed and underemployed and become the continuous connection among the worlds of education, training, and work for all workers and employers. This vision must be supported by strong leadership at the federal and state levels and reflect a heavy emphasis on local control. Remaining competitive in the new global economy will require the United States to develop bold new approaches to educating, employing, and retraining our workers.

To advance the economic competitiveness of our nation and the livelihood of our workers, the National Association of State Workforce Board Chairs, which represents the chairs of the gubernatorial-appointed, private-sector-led workforce investment boards in all states and territories, makes the following six recommendations to policymakers in Congress, the Administration, states, territories, and local communities.

This vision must be supported by strong leadership at the federal and state levels and reflect a heavy emphasis on local control.

Recommendation 1

Design a workforce investment system that is demand-driven.

- ◆ **Engage business and industry as full partners in system design and execution, with an emphasis on strategic thinking and positioning.**

The employer is the system's primary customer. Therefore, the system must focus on the business community. The current business-led workforce investment boards, which are designed to engage the private sector, are often so focused on compliance with government regulations that their work is meaningless to the private sector. In the new workforce development system, employers must be engaged in activities that cause system change and improve responsiveness as a result of their leadership.

State and local boards should change their role from overseeing administrative matters to strategically identifying and addressing issues of importance to their communities. Federal agencies, under the leadership of a business-led, federal-level oversight board/task force (described in recommendation 3), should provide incentives to promote this cultural shift. For example, state-led campaigns could be launched to demonstrate the system's worth to employers. This could result in business leaders talking to Congress about the system's value.

- ◆ **Design education and training programs customized to meet the diverse needs of employers and employees/students focusing on, for example, accessibility, responsiveness, modular curriculum, contextual learning, and expanded e-learning opportunities.**

In many cases, training providers across the nation still deliver training within a traditional program delivery framework that is site-based and tied to a schedule of 9:00 a.m. to 5:00 p.m. In today's ever-changing business environment, this traditional, unresponsive program delivery is no longer acceptable or effective. Community colleges, as well as other postsecondary institutions, should be offered incentives to adopt flexible approaches that better meet the needs of employers and working students.

- ◆ **Increase technical assistance to small and medium-sized businesses, with a focus on streamlining workforce development program delivery and providing human resource services.**

Small business accounts for 99 percent of all U.S. businesses and employs 53 percent of the private-sector workforce.¹⁶ Yet, because of limited resources, these companies have the greatest difficulty overcoming the bureaucratic barriers of the public workforce system. In many cases, they decide not to access applicant screening or training services because the processes are too cumbersome and time consuming.

The specialized human resources and personnel departments required to handle these challenges exist in larger companies, but do not typically exist in small and medium-sized enterprises. The oversight board/task force should initiate, and the federal partners (particularly the U.S. Departments of Labor and Commerce), should support, state-led campaigns that focus on expanding services to improve the human resource management functions in small and medium-sized businesses.

◆ **Support state implementation and dissemination of a voluntary, industry-validated, nationally recognized system of occupational certifications and skill standards.**

Employers often express their dissatisfaction with the skill levels of applicants or incumbent workers. A skills standards approach would document that an individual has the required skills, and it would enable employers to recruit people with the appropriate skill sets.

This approach would also help job seekers select training that prepares them for occupations in high demand and would provide training providers with the information they need to develop curricula that results in students graduating with the skills employers are seeking. A skills standards approach would document a worker's skills for the employer. It would also ensure the portability of skills and worker mobility needed to meet current workforce challenges.

Skill sets quickly become obsolete in the knowledge economy, so the emphasis must be on methodologies that are agile and easy to maintain. It is also critical that the certifications are industry-based (i.e., developed in partnership with, and fully recognized by, the business community). The U.S. Department of Labor (DOL) should provide incentives to encourage state systems that support the development of skills standards protocols.

◆ **Promote the use of sectoral strategies and industry cluster support in partnering with businesses to train the workforce.**

With limited resources to meet the formidable challenges of developing a world-class workforce, the system must work more efficiently. For example, designing and delivering training for consortia of businesses in the same industry sector or with similar training needs can reduce the cost of training by producing economies of scale.

Education and training providers should also develop programs and strategies that meet the workforce training needs of the businesses in regional clusters of innovation. These clusters, as defined by Harvard University's Michael Porter, Ph.D., are

Education and training providers should also develop programs and strategies that meet the workforce training needs of the businesses in regional clusters of innovation.

Promoting the use of portable credentials that document a worker's skills is important in a churning labor market.

geographic concentrations of competing and cooperating companies, suppliers, service providers, and associated institutions. As a partner in the cluster, education institutions must be both proactive and responsive to the ongoing education and training needs of the cluster businesses. Rewards and incentives should be provided to states that use these approaches.

◆ **Support states that use innovative approaches to address teacher shortages and teacher preparation.**

The extreme shortage of teachers that is looming on the horizon should be seen as an opportunity rather than a challenge. States should be rewarded for finding creative ways to attract youth into the teaching profession, for recruiting former professionals into the classroom, and for restructuring teacher preparation programs to better prepare teachers for the challenges of this century. Collaboration between federal agencies and professional organizations would afford these issues national attention and could unleash creative solutions. Benchmark models that include educators' increased participation on workforce investment boards could demonstrate the benefits of interaction between educators and the private sector. Federal agencies should provide incentives to encourage states to adopt this approach.

Recommendation 2

Actively promote lifelong learning, reskilling, and upgrading of the workforce.

◆ **Promote the development and use of portable credentials.**

Workers can no longer count on working for the same company for 30 years. Instead they must become "career entrepreneurs" responsible for their own training and development. Promoting the use of portable credentials that document a worker's skills is important in a churning labor market. DOL and the U.S. Department of Education should provide support and incentives for states that develop state-recognized credentials, adopt industry-based certifications, or address this issue in other innovative ways.

◆ **Design programs to meet the diverse needs of workers within the context of the workforce's changing demographics.**

The immigrant population is increasing at six times the rate of the rest of the population. This demands that the workforce development system be responsive to the needs of these customers, many of who are illiterate in their native language and some of who need only English language skills. Employers and the Departments of Labor, Commerce, and Education (particularly adult education) should partner to develop innovative approaches to addressing this issue.

During the next decades, seniors are likely to work well into their seventies and eighties. The workforce development system will have to deal with the unique reskilling needs of this older population. The system will also need to assist employers in effectively integrating this population into their workplaces. Incentives will be needed for states that address this issue.

- ◆ **Develop a system of creative incentives for human capital investments by individuals and businesses to fill critical skills gaps identified through community audits and to meet future needs identified in community economic development plans.**

Training and development initiatives are an expensive and ongoing venture. During economic downturns, training often is one of the first budget items to be cut. Yet we must expand investments in education and training to fill the critical skills gaps.

The oversight board/task force and federal agencies should explore different financial incentives to offset the large capital costs of training faced by individuals and businesses. One such incentive that has great potential is changing federal student financial aid eligibility requirements to meet the needs of working adults and e-learning students.

Recommendation 3

Transform the workforce development system's alignment—accountability systems, funding mechanisms, and management.

- ◆ **Establish a business-led, federal-level oversight board/task force, including major federal partners and a strong business majority, to provide guidance to the system, break down administrative silos at the federal level, and advise the President and Congress on broad workforce development issues.**

At a minimum, high-level representatives from the U.S. Departments of Labor, Commerce, Education, Housing and Urban Development, and Health and Human Services should be members of the oversight board/task force. Representatives from key stakeholder organizations, particularly the education community, should also be represented.

Currently, senior staffs of the various federal cabinets rarely work together in a systematic, formal way to identify and address bureaucratic barriers. The creation of a federal-level oversight board/task force would demonstrate to the private sector that leaders at the federal level can put aside their turf issues, step out of their program funding silos, and make a commitment to addressing the needs of the entire system.

In the new workforce development system, customers are paramount.

◆ **Provide flexible funding to enable education and workforce development efforts to be agile and responsive to market demands.**

Considerable effort must be made at the federal level to break through the funding silos that often work against the development of a comprehensive, responsive education and workforce system. Given the limited funding, this type of inefficiency is frustrating to workers and employers and detrimental to achieving economic competitiveness.

Current government structures were formed during economic times that were far more predictable and stable than the ones we are now experiencing or are likely to experience as the new century progresses. The key word in the private sector is agility, but federal agencies are still struggling to meet these demands for increased agility and flexibility.

Benchmark models across the nation clearly demonstrate the benefits to states of flexible funding streams such as Temporary Assistance for Needy Families (TANF). Governors who have taken advantage of such flexibility have implemented significant new approaches to investing in their workforce with the support of private-sector leadership. The adoption of similar models across the nation should be encouraged and supported by flexible federal policy.

◆ **Focus on meaningful accountability measures across agencies, return on investment, and continuous improvement, not on bureaucratic, program-specific performance measures.**

In the new workforce development system, customers are paramount. It is important to understand these customers' diversity and to define and measure success in terms of how well their diverse needs are met.

The system is laboring under too many performance measures. There is a lack of consistency among the measures demanded by different programs and agencies. Moreover, the current measures are not meaningful to the business community and provide limited performance management data. Data collection is usually a chore rather than a meaningful activity that leads to continuous improvement and positive return on investment for the system.

◆ **Transform the role of DOL's Employment and Training Administration from that of a regulatory agency to one focused on supporting state and local performance innovation.**

The present emphasis on regulations, together with cumbersome reporting requirements and proliferating performance measures, should be replaced by an emphasis on supporting innovation that leads to high performance.

Grants of all types should aim to reward innovation rather than reward repetition. The Employment and Training Administration should develop a capacity to provide technical assistance to states and localities and should invest in developing and disseminating the common infrastructure—systems, data, and technology—necessary across the whole system.

Recommendation 4

Transform the workforce system's image, culture, and philosophy.

- ◆ **Develop and disseminate a vision of a world-class workforce system that is agile, responsive, innovative, business-driven, customer-oriented, performance-based, innovative, value-adding, and productivity-increasing.**

Most citizens, and many workforce professionals, do not understand the concept of a world-class workforce development system. They are caught in old paradigms and often think about “training programs for target populations” or the role of the “unemployment office.”

The vision for the system must be articulated clearly and disseminated so that all constituencies can better understand their roles within the system and the importance of workforce development as it relates to our nation's success in the global economy.

A nationwide effort is required to help staff in all agencies understand their roles in the new system, particularly in the areas of agility, innovation, and responsiveness. Where this has been done at the state level, it has proven successful. The effort needs to be well planned and consistent, with leadership provided at all levels of the system until the paradigm shift is complete.

- ◆ **Position and promote the workforce development system as a system to serve all individual and business customers.**

Currently, the system is perceived as a “second-chance” system to help people in distress. Employers do not perceive the resources the system expends as adding value to their activity. As a result, employers often turn to the federally funded and state-funded workforce development system as a last resort, and it retains a welfare stigma.

Economic development should be recognized as a purpose equally important to the system's social dimensions. The workforce development system must not be viewed just as a short-term, band-aid system to serve individual customers in need, but also as a strategic tool to build our long-term economic engine in partnership with the business community.

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Recommendation 5

Engage state and local education entities and economic development departments as full partners with state and local workforce investment boards.

In many states, economic development organizations and education institutions are only at the periphery of the workforce development system. Because workforce issues are integral to economic development and the preparation of students in the prekindergarten through postsecondary education system, these systems must work as full partners. We cannot afford to disregard the importance of our “first-chance” education system to our national security and its relevance to economic development.

The major expenditures in the K–12 system must provide greater results in terms of addressing the skills gaps in basic literacy, problemsolving, and teamwork, particularly as they relate to preparing students for jobs, higher education, and lifelong education.

Only through strong linkages and enhanced collaboration among education, economic development, business, and workforce partners will we increase our return on our national investment of public education dollars and increase the business community's satisfaction with the education and workforce development systems. Leadership at the federal level should focus on this national problem, and incentives should be made available to states to address the problem.

Recommendation 6

Overhaul labor market information systems at the federal and state levels to be more current, effective, and user-friendly in providing quality data and analysis to make good business and career decisions.

Experts in government, academia, and business acknowledge that today's labor market information systems produce data that are highly reliable and enable valid comparisons across geographic areas. However, these systems fall significantly short of meeting the needs of businesses, job seekers, and economic development agencies. The information often is not current, is difficult to access, and is unavailable for customized needs. These systems also focus on state- and metropolitan-level data rather than on local information.

Today's decisions require real-time labor market information based on a comprehensive analysis system. Incentives should be made available to states to develop real-time indicators of labor market trends. Federal systems have demonstrated a lack of agility and timeliness in their responses. The federal government can play a meaningful role by helping to fund innovative methods to collect and analyze data, develop user-friendly methods of delivering information to consumers, and brokering opportunities for states to share best practices.

Chapter 4

Conclusions and Summary

The National Association of State Workforce Board Chairs believes strongly that the personal prosperity of our citizens and the economic security of our nation require uniting our education, economic development, and workforce development strategies in a common effort. This common effort should aim to equip our workforce with higher skills and supply our companies with qualified workers.

The vision for the workforce development system in this new century must be broader and more complex than the current system. The constantly changing needs and demands of this system are radically different from anything we have experienced. Trying to address today's changing needs using outdated approaches is folly.

The new workforce development system must embrace the concept of structuring opportunities and incentives for innovation and excellence, not focus on living by regulations and mandates of the past. New challenges demand new solutions. It is critical that agility, innovation, flexibility, and responsiveness become paramount in developing these new solutions.

"The United States needs "world-class" literacy and numeracy skills if it is to remain a leader in real output per capita, economic growth, productivity and competitiveness in the 21st century....To raise our nation's literacy performance beyond its present mediocre level....it means cutting waste, retargeting available resources and revamping rules and rewards of the education and labor market systems." ¹⁷

The new workforce development system must embrace the concept of structuring opportunities and incentives for innovation and excellence, not focus on living by regulations and mandates of the past.

The National Association of State Workforce Board Chairs respectfully presents these recommendations to policymakers in Congress, the Administration, states, territories, and local communities for developing the next-generation workforce development system. This system must create and maintain a world-class workforce with world-class skills. Settling for anything less, we believe, will put us in jeopardy of becoming a nation at risk.

Endnotes

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- ³ Ibid.
- ⁴ Tammy Galvin, "Industry 2001 Report," *Training Magazine* (October 2001).
- ⁵ Carol Conway, *Leave No Stone Unturned: A Human Capital Approach to Workforce Development* (Research Triangle Park, N.C.: Southern Growth Policies Board and Southern Global Strategies Council), 1.
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- ⁷ Anthony P. Carnevale, "The Future of Education, Employment and Training Policy: A Conversation with Tony Carnevale" (testimony at the American Youth Policy Forum, July 27, 2001).
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- ⁹ Irwin S. Kirsch, Andrew M. Sum and Robert Taggart, *The Twin Challenges of Mediocrity and Inequality: Literacy in the United States from an International Perspective* (Princeton, N.J.: Educational Testing Service, February 2002).
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- ¹¹ Edward Barlow Jr. (Creating the Future, Inc., St. Joseph, Mich.) presentation delivered at the National Association of Workforce Boards Annual Conference, 2001, Washington, D.C.
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- ¹³ U.S. Department of Education, *Digest of Educational Statistics*, 1999 National Center for Educational Statistics (Washington, D.C.: May 2000), Table 32.
- ¹⁴ Organization for Economic Cooperation and Development, *Literacy Skills for the Knowledge Society*, 1997.
- ¹⁵ Dannah Bayton, "America's \$60 Billion Problem," *Trainingmag.com*, May 5, 2001.
- ¹⁶ 2002 Bizstats.com, Useful Business Statistics, Total Number of U.S. Businesses, available at: <<http://bizstats.com/index.asp>>.
- ¹⁷ Kirsch, Sum and Taggart, 32.



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